



Searching for Long-Term Sources of Quality Growth

Across sectors, sustainability is an increasingly important factor that shapes the growth prospects of many of the companies in our coverage universe.

As providers of sell-side equity research, our goal is to generate value-added insights about the more than 600 companies we cover for buy-side asset managers and the asset owners they serve. Over the past decade, many asset managers and investors have increasingly realized that ESG factors and other sustainability issues can affect a company's growth prospects and financial performance.

We are continually working to tailor our research and institutional sales capabilities to meet the evolving needs of buy-side investors and to focus our analysis on the factors that are material to a company's performance. As a result, many of our analysts are looking closely at how ESG factors may be affecting companies in their research coverage.

At William Blair, our investment philosophy focuses on identifying companies with sustainable competitive advantages and strong management, which together can allow the company to achieve above-average growth over the long term. Because of this approach, sustainability is an increasingly relevant consideration for many of the companies that we cover.

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Industry Spotlight: Apparel and Accessories

Dylan Carden, who covers the apparel and accessories industry at William Blair, explores some of the ways sustainability considerations and other ESG factors are affecting the consumer sector.

Q. How are sustainability themes influencing consumer preferences for apparel and accessories?

It's important to understand that, in the minds of consumers, sustainability isn't just about reducing your carbon footprint or treating your workforce ethically. Certainly those things matter to consumers, and their importance seems to grow every year. But concerns about using petroleum-based products in the manufacturing process or unsafe working conditions in garment factories have been part of the public consciousness for several decades.

One of the most interesting new developments of the past few years in the apparel industry has been that consumers are thinking more about sustainability in terms of buying products that are built to last and wanting to understand the product's value proposition in a broader, longer-term sense.

Many companies in the apparel industry have reputations for being wasteful in terms of stocking stores and then dumping unsold inventory once the new season's line is introduced. The growth of "fast fashion" about a decade ago only exacerbated this problem. But now the pendulum is swinging back the other direction. Today, consumers are buying fewer pieces of clothing, but they want those items to be higher-quality, longer-lasting, and more versatile.

In addition to concern about the wastefulness of turning over your wardrobe every season, this trend is being driven by multiple other factors, including a move toward minimalism from a fashion standpoint and spending constraints. Rapid inflation in

Our Equity Research Coverage

Our analysts seek to cover companies that have above-average growth prospects and above-average quality. Because of our long-term focus, sustainability is an important factor for many of the companies in our coverage universe, which includes more than 600 companies across the following sectors :

- Consumer
- Financial services and technology
- Global industrial infrastructure
- Global services
- Healthcare
- Technology, media, and communications



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healthcare, education, and housing has significantly limited the amount that consumers have to spend on apparel, so people are being more judicious in what they buy. All of these trends are interrelated and they are pushing consumers to focus more on sustainability in a broader sense of the word.”

Q. What changes are companies making in response to consumers’ growing concerns about sustainability?

Companies across the consumer industry have no choice but to take these concerns more seriously. And this is playing out in many different ways across the apparel industry.

In the past, some luxury apparel companies would burn unsold inventory to prevent their goods from getting in the hands of discount distributors or resellers. Several luxury brands have recently stopped this practice because they realized how offensive it was to consumers who care about wastefulness. Also, given the rise of the shared economy and the growth of the consignment industry, luxury brands are being forced to come to grips with the fact that their goods will be resold.

Manufacturing denim has always been a resource-intensive process that involves toxic materials. Now some companies are making progress in developing less-toxic ways to manufacture blue jeans. Also, companies are promoting broader arrays of casual pants beyond blue jeans, including athleisure leggings and chinos. Much of this shift is driven by fashion preferences, but environmental concerns are playing a role, too.”

Q. How are these themes playing out in terms of marketing and advertising?

From a marketing perspective, there’s been a massive shift in the power dynamic between apparel brands and consumers in the past five years. In the previous



advertising cycle, mega-brands used their marketing power to shape prevailing fashion trends, but today consumers use social media and other tools to self-curate their views about where fashion is headed. The brands that are winning today are the ones doing a good job of listening to what consumers want.

Another major change in the marketing landscape is the growing importance of transparency. As consumers have become more conscientious in their purchasing decisions, they want more information about the brands they are buying. In addition to information about a company’s practices related to environmental stewardship, labor relations, and community involvement, many consumers also want transparency about an apparel company’s margin structure or pricing strategy, in some cases.

This trend may have important implications for companies’ business models. Because of this transparency, consumers have more opportunities to purchase from companies whose policies align with the consumer’s personal values.

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When this alignment exists, consumers are more loyal and more willing to pay full price for these brands. This, in turn, leads to stronger, more sustainable margins, albeit from a smaller customer base. This is one of the reasons why it's increasingly hard to build a sprawling, massive brand in today's apparel landscape. WB

Many of the most successful apparel brands today are doing a good job of listening to what consumers want and providing transparency about the company's values and business practices.

CONCLUSION

Identify the Purpose of Your Capital

At William Blair, we believe that all capital has purpose and that all capital can make an impact. Whether you invest in one of our proprietary strategies, draw insights from our equity research, work with our investment bank for capital-raising and advisory solutions, or entrust our wealth advisors with your personal capital, we are committed to delivering ideas and solutions to help you fulfill the purpose of your capital.

Whatever your vision is for your capital, we invite you to begin a dialogue with William Blair to explore ways that those values can be expressed with your capital and in all aspects of your financial life. [WB](#)

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